



**Watson Wyatt & Company**

Suite 3500  
10 Universal City Plaza  
Universal City, CA 91608-1108

Telephone 818 623 4500  
Fax 818 623 4501

October 30, 2007

Dr. George Diehr  
Chair, Health Benefits Committee  
Board of Administration  
CalPERS  
5249 Beachcomber Court  
San Diego, CA 92130

Dear Dr. Diehr:

The Watson Wyatt team thanks the Health Benefits Committee (HBC) for Tuesday's efforts to clarify our working relationship and to define your most pressing objectives for your interim consultant. This letter outlines our understanding of the subject areas you've asked us to address for the November 14<sup>th</sup> HBC meeting, and the process we propose to get us there. We hope to review this letter with you in the very near future to clarify our assignment, and I will call you to set a time to talk.

For each subject area listed below, you have asked that Watson Wyatt produce an "opinion letter" much like those presented to the Investment Committee by its consultants.

**Subject Areas to Address**

1. To prepare for the development of the 2009 rate negotiation strategy, review and provide an opinion on the previous CalPERS health plan rate renewal cycle – both process and strategy. As we understand it, the HBC's objective is to review the recently completed negotiation strategy and process, identify opportunities to improve the approach, and help find ways to get a head start on 2009.
2. Comment on ways to understand and leverage the Medstat data warehouse. We understand the HBC's intent is to: (1) understand what data Medstat can generate, (2) understand how Medstat generated-data can be used in support of the rate negotiation process as well as the operation of a health program, (3) validate whether the current uses of Medstat's data capabilities justify the investment that CalPERS has made in this purchase, and (4) identify additional uses for either staff or HBC consumption that would add value to the operation of your health plans.
3. Evaluate and critique CalPERS' current and planned efforts for member and constituent outreach. This assessment should address the HBC's interest in soliciting



feedback from constituent members in order to improve engagement and minimize surprises, adverse reactions, etc. It also includes outreach and education to individual employees/members in CalPERS' various health care plans. The evaluation would encompass written and electronic communication materials, meetings and training sessions, special outreach to constituents such as employers/agencies, labor, retirees, etc., materials and marketing efforts by your carriers, and any other relevant activities. As we understand it, the HBC is interested in identifying opportunities to better engage its various constituents, raise understanding and awareness, and create more of an environment of collaboration. One approach we suggest is to conduct a series of 2008 post-enrollment debriefing sessions with various stakeholders, which we work together to identify.

4. Review and comment on the direction and scope of the various projects underway or soon to be underway by staff and consultants. These projects were presented at the October HBC meeting, and include:
  - a. The concept of using a single administrator
  - b. Consolidation of pharmacy benefit management (ie., using Medco to provide pharmacy services to Blue Shield and Blue Cross members)
  - c. Concept of a unified health and disease management program

We understand that the HBC is interested in an independent opinion regarding the appropriateness of these activities, and potentially some comments on pros and cons of these various approaches, with alternative suggestions if appropriate. Given the time constraints of the interim contract period, as well as the fact that the projects are in various stages, our review will necessarily be high-level in nature.

### **Proposed Process**

1. 45-minute interviews with each HBC member to review the four subject areas above, identify specific individual objectives, and obtain consensus clarity on our assignments. These interviews would be accomplished primarily by phone, although in person in some cases. In addition, these interviews serve the purpose of jump-starting our dialogue and relationship with the HBC members, which we view as essential given the short-term nature of our contract. Likely, the interviews will be conducted by some combination of me, Neil Toyota, Rick Beal, and Lisa O'Driscoll.
2. Assignment of subject matter expert team leads within Watson Wyatt for each subject area (completed).
3. Listing and consolidation of data needs to accomplish evaluation, including items such as existing reports, websites, website links, communication pieces, interviews with staff, and direct access to vendors (e.g., MedStat), statements of work released to the consulting community, etc. We intend to work with staff to accomplish our data collection needs.



4. Review by CalPERS counsel for need to discuss data warehouse capabilities in closed session.
5. Drafting of opinion letters for inclusion in the HBC agenda packet.
6. Attendance at the November 14<sup>th</sup> HBC meeting to provide commentary relative to each opinion letter.

Let's try to talk soon to ensure we're on the right track.

Sincerely,

Kirby G. Bosley  
West Division Practice Leader\Group & Health Care

Cc: Rick Beal  
Caty Furco  
Neil Toyota  
Lisa ODriscoll